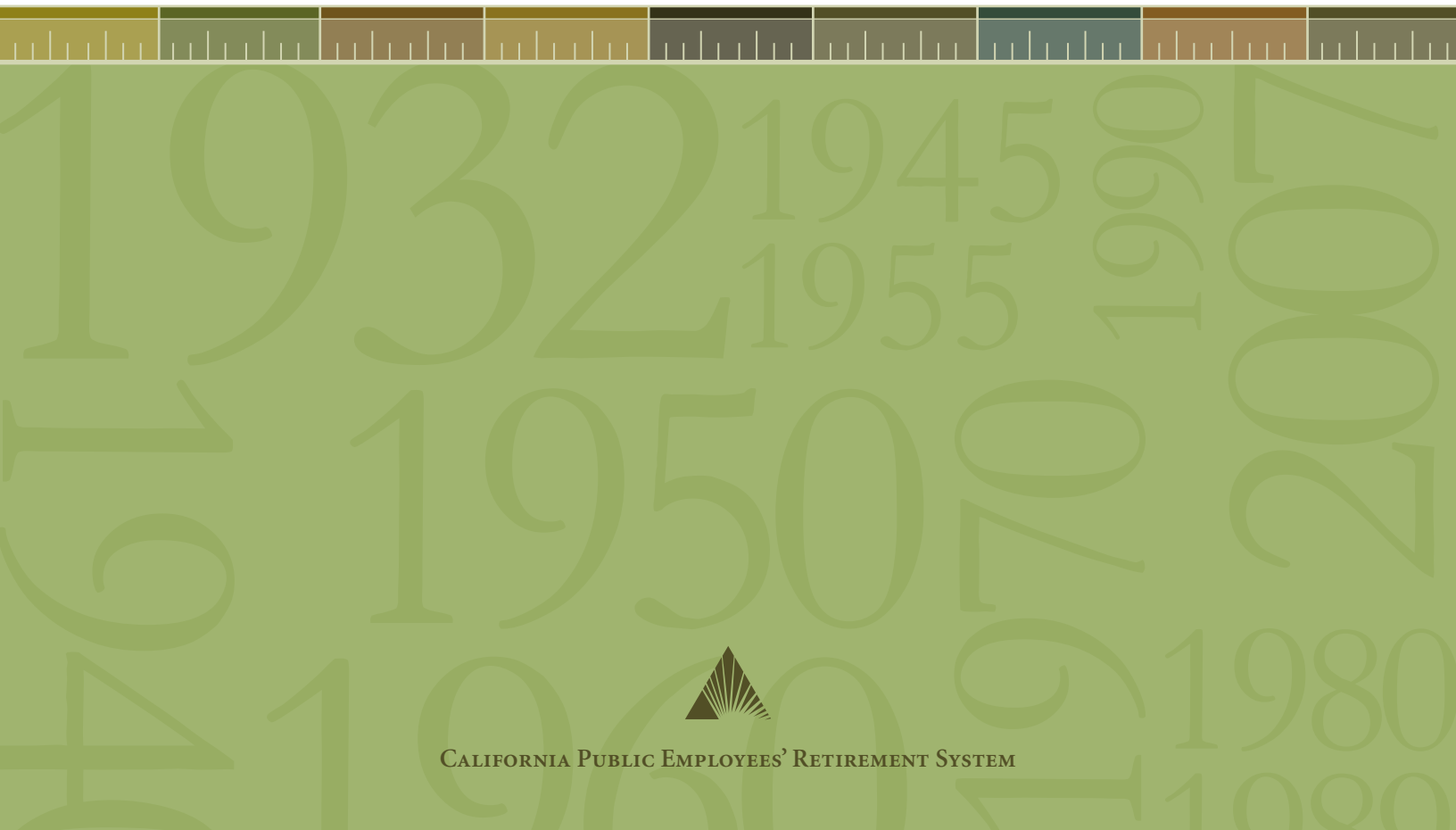


SOUND HISTORY SOLID FUTURE

OPERATIONS SUMMARY

YEAR ENDED JUNE 30, 2007



SOUND HISTORY SOLID FUTURE

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

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PRESIDENT'S MESSAGE



I am honored to serve as President of the CalPERS Board of Administration, and I am pleased to present the CalPERS Operations Summary and Comprehensive Annual Financial Report showing our accomplishments for the fiscal year ended June 30, 2007.

The Board welcomed three new ex officio members in the 2006-07 fiscal year: John Chiang, State Controller; Bill Lockyer, State Treasurer; and David Gilb, Director of the California Department of Personnel Administration.

In elections held in Fall 2006, active State members re-elected George Diehr as their representative. Active public agency members re-elected Priya Mathur. Maeley Tom was re-appointed as the representative of the State Personnel Board, and Tony Oliveira was re-appointed by Governor Schwarzenegger as the local government representative.

In March 2007, CalPERS marked its 75th anniversary of providing benefits to State, school, and local public employees. I am pleased to report that in this anniversary year we achieved a 19.1 percent return on investments, marking four consecutive years of double-digit returns. In keeping with our goal of maximizing returns at a prudent level of risk, we explored new investment opportunities, in areas of health care, commodities, clean technology, and infrastructure. Since our investment gains account for 75 cents of every dollar we pay in benefits, the outstanding performance represents money saved for employers and taxpayers. As a result of our superior investment returns over the past few years, most of our plans are 100 percent funded to meet retirement obligations.

“Proxy access” — a federal rule that would give shareowners the right to nominate corporate directors was our top corporate governance initiative during the year. It was one of a number of proposals to improve corporate governance at the companies in which we invest. Our goal was to foster accountability and promote a culture that aligns the interests of directors and corporate management with those of a company’s shareowners.

Our 2007 shareowner proposals had on average received support of more than 60 percent of the investors who voted. We also pursued shareowner requests for improved corporate disclosure on environmental issues, and we were among 14 leading institutional investors releasing the Global Framework for Climate Risk Disclosure, which urges companies to report the business risks of climate change.

In March 2007, we established the California Employers’ Retiree Benefit Trust Fund, which assists employers in complying with a new accounting rule involving the calculation and reporting of future OPEB (other post-employment benefit) obligations. By drawing on the same expertise that has given us outstanding returns on our investment fund, we are helping to mitigate the burden of funding retiree

health benefits. Another reflection of our commitment to employers is the expansion of our Account Manager Program. Account managers provide a single point of contact between CalPERS and local public agencies and local stakeholder groups.

In the health benefits arena, our proactive steps over the past few years have moderated cost increases and resulted in real savings. Our Health Benefits package for 2008 reflects the smallest premium increase in a decade. We have developed a five-year plan that will go a long way in changing our health program, containing costs, and ensuring affordability for our members. This plan includes the creation of a standardized disease management program across all health plans.

At the end of 2006, the Governor created the Public Employee Post-Employment Benefits Commission to examine and propose ways to address retiree pension and health care obligations. We worked closely with the Commission during the year offering our insight, expertise, and opinions about the future of retirement and health benefits.

In early 2007, the Applied Research Center of California State University, Sacramento, released the first-ever study quantifying the impact of the benefits paid to retirees during 2006. The study found that the CalPERS benefits generated \$11.9 billion in economic activity. A substantial part of that impact came from the “ripple effect,” of retirees’ income in the form of spending, jobs, and annual payroll. In a second study, we found that our investments in California had an overall impact to the state’s economy of \$15.1 billion.

The rich history and vitality of our organization is due in large part to our employees. Their dedication to CalPERS values and goals enables us to continue to provide the exceptional service members and employers expect. I appreciate the role each employee plays in the success of our organization.

Our commitment to the principles upon which our organization was founded will guide us as we actively pursue State, national, and global actions that support the sustainability of CalPERS pension, health benefits, and investment programs. All of our activities will be driven by the goal of ensuring the retirement and health security of California’s public employees.

Rob Feckner

CalPERS Board President

SOUND HISTORY

In the 1920s, inspired by a climate of sweeping national reforms, a small but dedicated group for California workers rallied for a cause of their own—a retirement system for State employees. They hoped to provide retirees with financial security and the State a more efficient workforce.

The workers fought against both political opposition and public apathy, but they waged a vigorous campaign when the matter went before voters in 1930—and they triumphed. In January 1932, the doors of the State Employees' Retirement System (SERS) opened.

Right: Elderly men sleeping in a Sacramento Men's Shelter, 1930. Left: Advertisement for Proposition 5, 1930. Background: Governor James Rolph signing the State Employees' Retirement Act, 1931.

1930-40



SOLID FUTURE

During the 2006-07 fiscal year, CalPERS celebrated 75 years of serving State, school and local public employees. The purpose for our creation in 1932 was simple: to provide a secure retirement to people who dedicate their careers to public service. Out of that basic idea, the State Employees' Retirement System (SERS) was born. In 1939, public agency and classified school employees were allowed to contract for retirement benefits, and in 1967, SERS became PERS to reflect the participation of local public agencies. In 1992, the System name was changed to the California Public Employees' Retirement System, or CalPERS.

One of our founding principles is to provide retirement and health security for our members, and that principle remains a key focus of all our activities. While much has changed in the past 75 years, CalPERS continues to be an organization that public employees and employers can depend upon.

The principles that have guided us throughout our sound history will serve as the foundation for a solid future.

FINANCIAL HIGHLIGHTS

Net Assets — PERF

(Dollars in Thousands)

	2007	2006
Assets		
Cash, Cash Equivalents & Total Receivables	\$5,862,421	\$5,543,412
Investments	251,396,742	297,734,280
Securities Lending Collateral	46,337,538	38,011,353
Capital Assets & Other	397,813	391,009
Total Assets	\$303,994,514	\$254,762,688
Liabilities		
Retirement Benefits in Process of Payment, Investment Settlement & Other	\$6,534,294	\$5,560,534
Securities Lending Obligations	46,337,538	38,011,353
Total Liabilities	\$52,871,832	\$43,571,887
Total Net Assets	\$251,122,682	\$211,190,801

Changes in Net Assets — PERF

(Dollars in Thousands)

	2007	2006
Additions		
Member Contributions	\$3,262,699	\$3,080,879
Employer Contributions	6,442,384	6,095,029
Investment Income	40,748,261	22,041,265
Other	9,119	—
Total Additions	\$50,462,463	\$31,217,173
Deductions		
Retirement Benefits	\$10,070,555	\$9,236,073
Refund of Contributions	181,574	170,929
Administrative Expenses	278,453	236,212
Other Expenses	—	14,039
Total Deductions	\$10,530,582	\$9,657,253
Increase in Net Assets	\$39,931,881	\$21,559,920



Photo Notes:

Back row standing (from left to right): Marjorie Berte, John Chiang, Kurato Shimada, Priya Mathur, Mike Quevedo, Jr., David Gilb, Robert F. Carlson, and Maeley L. Tom.

Front row seated (from left to right): Rob Feckner, Bill Lockyer, Tony Oliveira, Charles P. Valdes, and George Diehr.

CalPERS BOARD OF ADMINISTRATION

Rob Feckner, President

Employee Member
(elected by school members)
Glazing Specialist, Napa Valley
Unified School District
Term Ends: January 15, 2011

Robert F. Carlson, Vice President

Retired Member
(elected by retirees)
Retired, Chief Counsel,
Department of Transportation
Term Ends: January 15, 2008

Marjorie Berte

Official of Life Insurer¹
Vice President, California State Automobile
Association, Retired
Term Ends: January 15, 2009

John Chiang

State Controller
Ex Officio Member

George Diehr

Employee Member
(elected by State members)
Professor, CSU San Marcos
Term Ends: January 15, 2011

David Gilb

Director, Department of Personnel Administration
Ex Officio Member

Bill Lockyer

State Treasurer
Ex Officio Member

Priya Mathur

Employee Member
(elected by public agency members)
Economist, Bay Area Rapid Transit
Term Ends: January 15, 2011

Tony Oliveira

Elected Official of Local Government¹
Appointed on September 15, 2005
Term Ends: January 15, 2007

Mike Quevedo, Jr.

Public Representative²
Term Ends: January 15, 2008

Kurato Shimada

Employee Member
(elected by all members)
Retired, Supervisor of Operations,
Oak Grove School District
Term Ends: January 15, 2010

Maeley L. Tom

State Personnel Board Member
(designated by the State Personnel Board)
Term Ends: Serves at the pleasure of the SPB

Charles P. Valdes

Employee Member
(elected by all members)
Counsel, Department of Transportation
Term Ends: January 15, 2010

Notes:

¹ Governor appointee.

² Appointed jointly by the Speaker of the Assembly and the Senate Rules Committee.

CalPERS BOARD COMMITTEES

In addition to their regular duties, Board Members also serve on permanent and ad hoc committees to review specific programs, projects, or issues and make recommendations to the Board. The following committees were active as of June 30, 2007.

Benefits & Program Administration

Kurato Shimada, Chair

Rob Feckner, Vice Chair

Robert F. Carlson

John Chiang

George Diehr

David Gilb

Priya Mathur

Tony Oliveira

Maeley L. Tom

This committee reviews all matters related to benefit program structure, actuarial studies and rate setting, retirement program policy, and administrative issues.

Health Benefits

George Diehr, Chair

Priya Mathur, Vice Chair

Marjorie Berte

John Chiang

Rob Feckner

David Gilb

Bill Lockyer

Tony Oliveira

Charles P. Valdes

This committee oversees the administration of the Public Employees' Medical & Hospital Care Act program and the Public Employees' Long-Term Care Act program.

Performance & Compensation

Priya Mathur, Chair

Robert F. Carlson

David Gilb

Bill Lockyer

Tony Oliveira

Kurato Shimada

Charles P. Valdes

This committee studies and evaluates compensation mechanisms and criteria, develops policies and procedures, and makes recommendations to the Board concerning compensation of key personnel.

Finance

Robert F. Carlson, Chair

John Chiang, Vice Chair

Marjorie Berte

Bill Lockyer

Tony Oliveira

Kurato Shimada

Charles P. Valdes

This committee provides financial oversight on all budget matters, evaluates funding alternatives, oversees preparation and recommends approval of the CalPERS budget, and oversees the CalPERS annual and periodic audits by both internal and external audit units.

Investment

Charles P. Valdes, Chair

George Diehr, Vice Chair

Marjorie Berte

Robert F. Carlson

John Chiang

Rob Feckner

David Gilb

Bill Lockyer

Priya Mathur

Tony Oliveira

Mike Quevedo, Jr.

Kurato Shimada

Maeley L. Tom

This committee reviews investment transactions, the investment performance of both internal and external managers, and establishes investment policy and strategy.

Investment Policy Subcommittee

Priya Mathur, Chair

Marjorie Berte

Robert F. Carlson

Tony Oliveira

Charles P. Valdes

This subcommittee conducts an inventory of all existing investment policies, procedures, and guidelines for review by the Investment Committee and reviews and recommends revisions to these on a priority basis. It is also charged with developing a manual of policies, procedures, and guidelines, and a process for periodic revisions.

R Street Subcommittee

Charles P. Valdes, Chair

Robert F. Carlson, Vice Chair

Priya Mathur

Tony Oliveira

Kurato Shimada

This subcommittee oversees the CalPERS headquarters expansion project, including the selection of contractors, approval of building designs, and approval of expenditures and budgets.

Ad Hoc Board Governance Committee

Rob Feckner, Chair

George Diehr, Vice Chair

Marjorie Berte

Robert F. Carlson

Priya Mathur

Kurato Shimada

Charles P. Valdes

This ad hoc committee reviews and recommends to the Board any changes in Board policy that the committee deems appropriate to enable Board members to improve their ability to perform their fiduciary duties.



Photo Notes:

Back row standing (from left to right): Peter Mixon, Gloria Moore Andrews, Ron Seeling, Jarvio A. Grevious, Ken Marzion, Kathie Vaughn, and Patricia K. Macht.

Front row seated (from left to right): Fred Buenrostro, Anne Stausboll, Teri Bennett, Gregory Franklin, Russell Read, and John Hiber.

CalPERS EXECUTIVE STAFF

Fred Buenrostro

Chief Executive Officer

Gloria Moore Andrews

Deputy Executive Officer
Operations

Jarvio A. Grevious

Deputy Executive Officer
Benefits Administration

John Hiber

Assistant Executive Officer
Administrative Services

Patricia K. Macht

Assistant Executive Officer
Public Affairs

Ken Marzion

Assistant Executive Officer
Actuarial & Employer Services

Peter H. Mixon

General Counsel

Russell Read

Chief Investment Officer
Investment Office

Teri Bennett

Assistant Executive Officer
Information Technology Services
(Ronald E. "Gene" Reich through March 2007)

Ron Seeling

Chief Actuary
Actuarial & Employer Services

Anne Stausboll

Chief Operating Investment Officer
Investment Operations

Kathie Vaughn

Assistant Executive Officer
Member & Benefit Services

Gregory Franklin

Assistant Executive Officer
Health Benefit Services
(Terri Westbrook through January 2007)

DIVISION CHIEFS & SENIOR INVESTMENT OFFICERS
(through June 30, 2007)

Ruth Ashley, E.S.Q.
Diversity Officer
External Affairs

Terry Bridges
Pension System
Resumption Project
(Teri Bennett through
March 2007)

Sandra Felderstein
Office of Health Policy
& Program Support

Curtis Ishii
Senior Investment Officer
Global Fixed Income

Larry Jensen
Office of Audit Services

Holly Fong
Office of Employer &
Member Health Services

Russell Fong
Fiscal Services

Kami Niebank
Strategic Management
Services Division
(Susan Garrett through
October 2006)

John Saxon
Innovative Services
Division
(Tim Garza through
July 2006)

Wendy Notsinne
Office of
Governmental Affairs
(Lisa Hammond through
September 2006)

Matthew Flynn
Investment
Administrative &
Operational
Services Division

Geraldine Jimenez
Supplemental
Income Plans

Sherry Johnstone
Office of Enterprise
Compliance

Ron Kraft
Customer Service &
Education Division

Marcine Crane
Office of Health
Plan Administration
(Richard Krolak through
January 2007)

Nancy Johnson
Technology Services
& Support Division
(Peter Lai through
March 2007)

Donna Lum
Benefit Services

Debbie Martin
Office of
Information Security

Gina Ratto
Deputy General Counsel
(Carol McConnell through
October 2006)

Ted Eliopoulos
Senior Investment Officer
Real Estate
(Michael McCook through
August 2006)

Lori McGartland
Employer Services

Alan Milligan
Actuarial Office

Rick Nelson
Operations Support
Services

Chris O'Brien
Human Resources

Lindy E. Plaza
Diversity Outreach Officer
of Internal Operations
Diversity Outreach Program
(Richard Aldama through
October 2006)

Diana Proctor
Headquarters
Expansion Project

Farouki Majeed
Senior Investment Officer
Asset Allocation &
Risk Management
(Patricia Pinkos through
February 2007)

Leon Shahinian
Senior Investment Officer
Alternative Investment
Management Program

Darryl Watson
Member Services

Christianna Wood
Senior Investment Officer
Global Public Equity

REGIONAL OFFICE MANAGERS

June Copple
San Bernardino

Laura Duran
Orange County

Edith Mercer
Glendale

Elwin Nash
San Jose

Mary Aberg
Walnut Creek

Evelyn Perez
Fresno

Jean Walker
San Diego
Sacramento

PENSION PLAN SERVICES HISTORY

The United States was in the throes of its worst economic crisis when California's new public retirement system opened for business. SERS leadership steered the System adeptly through the havoc of the Great Depression, methodically putting in place initial benefit plans. The System grew sturdy enough to support the addition of local public agencies who joined in 1939 to access benefits for their employees. Benefits improved in the 1940s and 1950s, with the System offered a more generous formula. Throughout this time, SERS kept its focus on its members and employers, building new and better ways to provide retirement benefits and other services.

Left: State Employees Retirement System Handbook, 1940. Right: CalPERS First Executive Officer Earl Chapman, 1946. Background: Employees of local public agencies, Palo Alto city utility crew, 1950.

1940-50



PENSION PLAN SERVICES FOR MEMBERS & EMPLOYERS

In the 75 years since our organization began serving public employees, nearly every dimension of the world in which we live has changed. But one thing remains constant: CalPERS commitment to ensuring that California public employees receive the retirement benefits they have been promised. Equally firm is our commitment to the public employers that have placed their trust in our sound management of their retirement programs.

We serve approximately 2,600 public employers. More than 1.5 million public employees, retirees, and their families are covered by our defined benefit pension plan. As of June 30, 2007, CalPERS membership included 1,086,900 active and inactive members and 455,208 retirees.

Serving Our Members

The CalPERS Customer Contact Center and eight regional offices continue to provide frontline customer service to our members. Over the past year, we processed 23,023 new service retirement applications and more than 3,000 disability retirement applications. We paid more than \$10.1 billion in retirement, death, and survivor benefits, an increase of nearly \$1 billion over the prior year. Approximately 99 percent of new retirees received their first benefit check within 30 days of retirement. We also processed more than 25,000 requests for refunds and made those funds available to members within 30 days.

During the year, we handled more than 660,000 customer calls and responded to nearly 51,000

pieces of member retirement-related correspondence. We completed more than 30,600 at the initial point of contact, and 100 percent within 10 business days of receipt of a request.

We also provided in-person assistance to more than 54,000 members at our regional offices.

Among the highlights in the customer service area were two major technology enhancements designed to improve customer service: the my|CalPERS personal Web site for members and the CalPERS Education Center, which gives members and employers easier and more convenient access to CalPERS education classes.

With my|CalPERS, members can now view personal information about their CalPERS retirement and health benefits, and conduct online transactions such as changing their mailing address, and performing financial and retirement planning calculations. Members can also check the status of applications for benefits and service credit, and receive information about CalPERS programs and the latest CalPERS developments.

The CalPERS Education Center is a centralized online system that allows members and employers to better manage their CalPERS education needs. Members can enroll online for instructor-led classes, change or cancel class enrollment, download class materials, and track their education history. Employers can enroll their employees in classes and download class materials. In the future, members will be able to take classes online, receive automatic notification of upcoming instructor-led classes in their area, and make appointments online with a CalPERS retirement counselor.

Instructor-led retirement and financial planning classes continue to form the backbone of member

Retirement Program Highlights

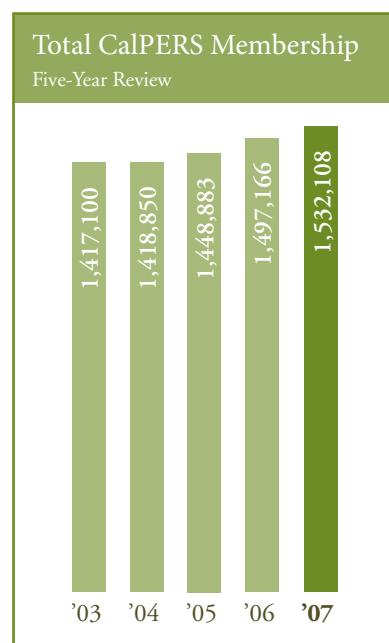
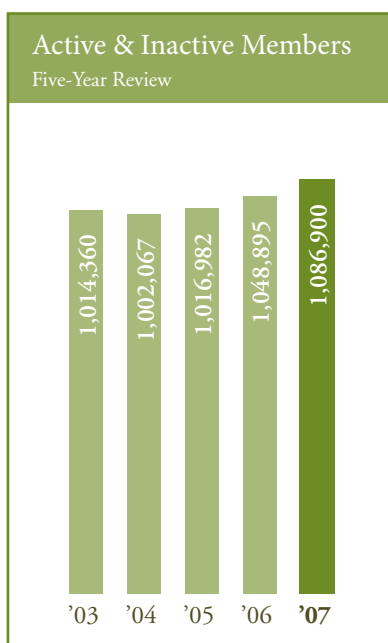
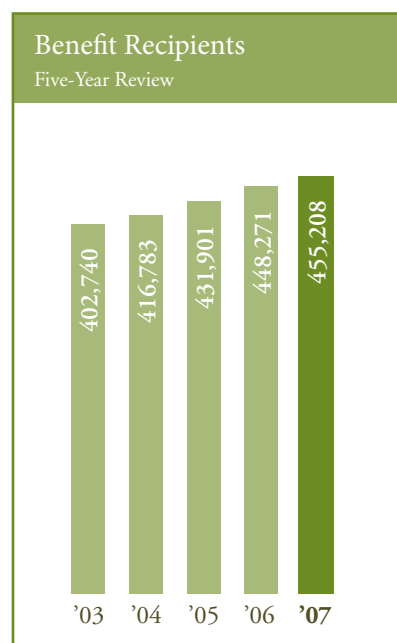
- 1,086,900 active & inactive members
- 455,208 retirees, beneficiaries & survivors
- \$10.1 billion paid in benefits
- 2,614 public agency employers (including school districts)

education. To provide members with greater scheduling flexibility, we converted our all-day classes to half-day classes. We conducted 1,400 retirement planning workshops and 300 of our new half-day financial planning seminars on topics such as understanding your CalPERS benefits, planning for a secure retirement, and financial planning for retirees. We continue to explore the use of video-conferencing and other technologies. This year we partnered with one of our largest employers, the Los Angeles Unified School District, to “Web cast” retirement planning classes via the Internet to district employees, providing a convenient and efficient way of offering customer education.

Another customer service enhancement was our View Your Tax Statement feature of our Web site. Retirees can now view the last four years of their tax statements, such as IRS forms 1099-R and 1099-INT to assist them with financial planning and the preparation of income tax returns.

Our annual retirement planning fairs continued to be a very popular way for members to get information about preparing for their future. During the year, we expanded the reach of the fairs by conducting 20 events in 13 cities throughout the State.

This past year we mailed 1,004,021 Annual Member Statements to our members—a 3.2 percent increase over the prior year. In addition to the statements our members receive in the mail, members can also log on to myCalPERS to view, download, and print a copy of their Annual Member Statement. Members can currently view their 2006 and 2007 Annual Member Statements and beginning in the fall of 2008, they will have the ability to view up to three years of statements. We also provide our members the ability to opt out of receiving future statements in the mail.



1955

SERS takes over administration of the federal Social Security program for California public employees.

Serving Our Employers

As part of our commitment to meeting the needs of public employers, we launched a major new service—the California Employers’ Retiree Benefit Trust Fund. The trust fund allows any California public employer to prefund their future retiree health and other post-employment benefit (OPEB) costs, greatly reducing their future long-term OPEB costs. Once employers make regular contributions into the trust fund, the money is invested and grows. In the future, participating employers can use investment earnings to pay for their OPEB costs, similar to the CalPERS pension plan in which three out of four dollars paid in benefits comes from investment earnings rather than employer or employee contributions. The City of Thousand Oaks in Ventura County became the first government employer to enroll in the new prefunding plan, followed by the cities of Milpitas, El Cajon, and Dublin.

More than 650 employer representatives attended our seventh annual Employer Educational Forum at Indian Wells. The theme of the three-day event was “Creating Lasting Value.” That theme reflected our partnership with employers to work for retirement

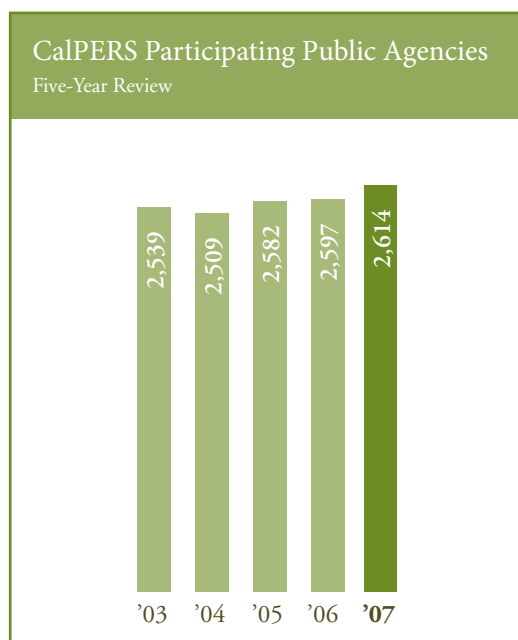
security and affordable high-quality health benefits for employees while keeping employer costs stable—creating lasting value for everyone.

The Forum featured workshops on practical topics such as payroll reporting, as well as more complex subjects such as understanding actuarial concepts and the benefits of prefunding the retiree health costs. Attendees also had the opportunity to meet with CalPERS staff and Board members to exchange ideas and gain valuable information about our services. As in the past, employer representatives had an opportunity to meet one-on-one with their actuary.

During the year, we expanded our popular Account Manager program to better serve employers. The account manager serves as a single point of contact between CalPERS and elected officials and executives of local public agencies and local stakeholder groups. The account manager’s job is to explain CalPERS policies and practices to customers and to assist them in analyzing business situations. The account manager also helps CalPERS staff, employers, and stakeholders solve complex business issues.

Our Employer Services Division continued to work on improvements to our customer service for employers. Efforts continued on the development of a new application to centralize billings and account receivables, and establish a new collections unit. We improved training for our employers by providing online services such as self-enrollment into classes. Improvements were also made to online services in the Automated Communications Exchange System (ACES) which allows employers greater access to statements and forms for membership, payroll and health benefit transactions.

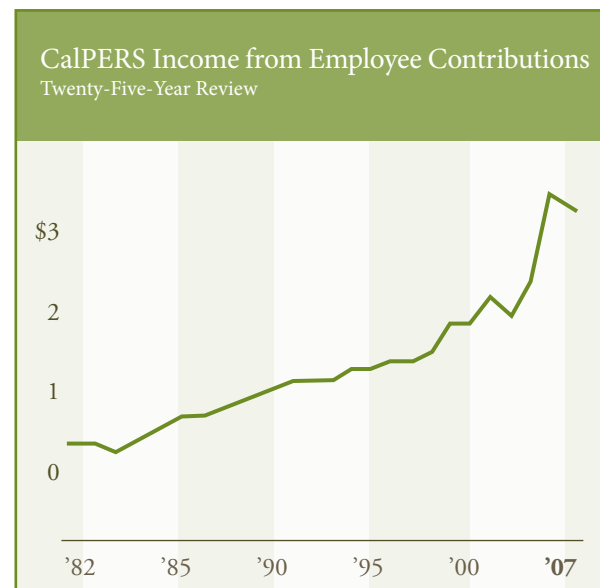
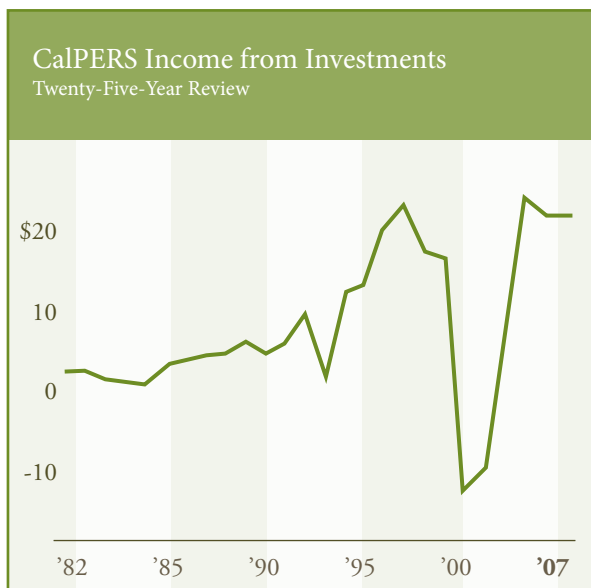
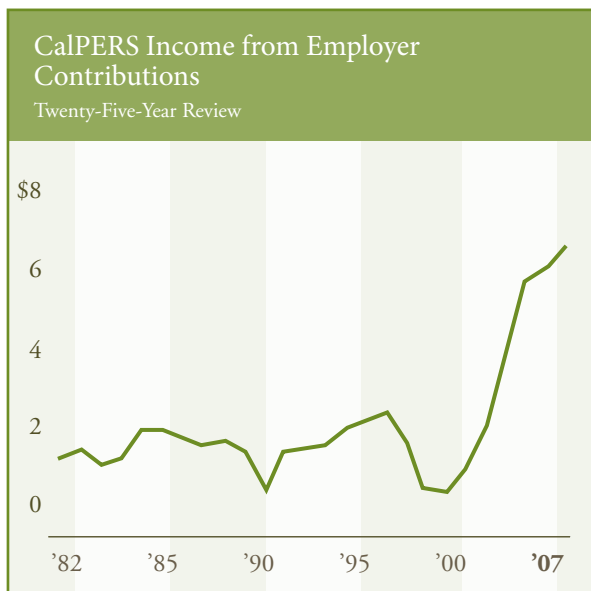
During the year, our Employer Contact Center provided service to more than 137,500 callers on their initial point of contact, an increase of nearly 9 percent over the previous year. We conducted



workshops for more than 1,641 employer representatives during 181 visits to State offices, School districts, and Public Agencies. We also conducted 65 workshops for individual employers by special request and 21 workshops designed specifically for employers new to CalPERS.

We also mailed 1,575 Annual Employer Statements; processed more than 303,000 State, School, and Public Agency health and membership transactions; 47,000 payroll reports, conducted more than 4,400 compensation reviews, and completed 201 public agency contract amendments.

Over the past year, we worked collaboratively with our employers and other stakeholders on several key issues. We formed an Employer Advisory Group to build awareness and support within the employer community for our new pension and health technology system currently under development. We worked closely with the California Teachers Retirement System (CalSTRS), Department of Education, and the County Offices of Education to begin implementation of a plan to effectively address Charter School membership and payroll reporting issues. And we sponsored quarterly School Employers Advisory Committee meetings to provide an opportunity to share information, address concerns and answer questions specific to school employers.

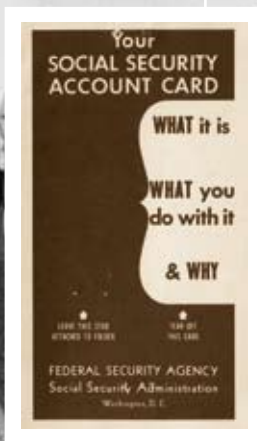


HEALTH BENEFITS HISTORY

SERS changed its name in 1967 to the Public Employees' Retirement System (PERS) to reflect its broad reach and membership. It took an enormous new responsibility in the 1960s, when it began administering health care benefits to public employees. In the many years ahead, the health care industry referred to the System as a "bellwether" for ground-breaking initiatives aimed at restraining costs and improving quality, access and stability.

Left: Pamphlet on Social Security, 1953. Right: Sacramento Union Article, 1950. Background: Assemblymen filing for re-election, CalPERS Legislators' Retirement System started providing benefits for lawmakers and their families, 1950

1950-60



**State Employes Fund Has
\$140,000,000 in Reserve**

HEALTH BENEFITS PROGRAM

CalPERS began providing health insurance benefits to State employees in 1962, 30 years after our creation as a pension system. Five years later, health benefits were expanded to include local public employees on a contract basis. As we celebrate our 75th anniversary, our focus is on ensuring that our Health Benefits Program provides members quality health care at a reasonable cost.

The Health Care Market Picture

A decade ago, CalPERS led the managed care revolution with four years of premium declines. But market dynamics have changed. The cost spiral resumed, and prices in the U.S. health care market are rising faster than ever. Total U.S. health care spending reached \$2 trillion—more than 16 percent of the national gross domestic product.

Industry analysts attribute much of the continuing cost pressure to rising hospital and physician costs; extra services for an aging population that is living longer; increasing incidence of costly chronic conditions, such as diabetes, obesity, and heart disease; new technology and cost of pharmaceuticals; consolidation of hospitals and other networks that limit competition for services in certain areas; and irregular pricing, quality, record-keeping, and reporting practices by hospitals, physicians, and other providers.

In this challenging environment, CalPERS performed consistently with other large U.S. purchasers in the marketplace. Premiums for CalPERS Basic plans in 2007 increased by an average of 11.6 percent for health maintenance organizations (HMOs); 12.6 percent for Preferred Provider Organizations (PPOs); and 12.8 percent for Association plans. Medicare plan premiums increased by an average of 25 percent for HMOs; 6.8 percent for PPOs; and .02 percent for Association plans.

By comparison, analysts projected Basic HMO premium increases averaging 11.7 percent for major U.S. purchasers in 2007. Many purchasers were able to lower projected

increases by drastically reducing benefits and raising co-pays, but we chose not to go down that path. Most of the System's 1.2 million members saw no major changes in co-payments for office visits and prescription drugs in 2007.

Fiscal year 2006-07 was a groundbreaking year for the CalPERS Health Benefits Program. We adopted a 2008 rate package that will increase overall premiums by 6.3 percent—the lowest increase in the last 10 years. We held the Basic HMO premium increase to 7.4 percent, and negotiated an HMO Medicare rate that is 1.6 percent less than last year. These were the final steps toward creating a benefits package that is strategically aligned to deliver CalPERS high standards of efficient health care and disease prevention, and achieve rate increases well below the average in today's marketplace.

To help restrain health care costs, we worked diligently to enhance the value of the health care benefits we provide. We eliminated Basic HMO co-payments for preventive care office visits, including periodic health exams, periodic maternity care, well baby visits, allergy testing and treatment, immunizations, hearing evaluations, and pre/post-natal care. We instituted two new high-performance health plan options—Blue Shield NetValue (HMO), and PERS Select (PPO). These plans use a smaller panel of physicians, but have a lower premium than the standard Blue Shield and PERS Choice plans.

Developing the 2008 package did not come without some difficult decisions, including eliminating Western Health Advantage (WHA) as an HMO option in 2008. WHA, a small six-county plan based in the Sacramento region, was

Health Program Highlights

- 1,246,244 employees, retirees & family participants
- 61 percent are State members
- 39 percent are public agency & school members
- \$5 billion paid in annual health premiums

not able to meet CalPERS requirement for data and transparency in setting rates. It lacked the resources to develop a comprehensive disease management program, and it expressed reluctance to modify their business model to expand into more regions of the State.

Innovative Contracts

As part of our efforts to make data and information to purchasers more transparent, CalPERS retained Medco. The Medco contract increases transparency of data, provides greater disclosure and oversight, and keeps prescription costs in check. The contract requires Medco to provide drugs of the highest quality and value, based on sound clinical findings. It also requires 100 percent pass-through to us of all manufacturers' rebates associated with the CalPERS account. These savings can help keep premiums from being higher.

We also renewed a contract with Blue Shield to administer HMO health benefits to members. By excluding high-cost hospitals from Blue Shield's HMO network, CalPERS saves about \$50 million per year from this effort.

Collaborative Ventures

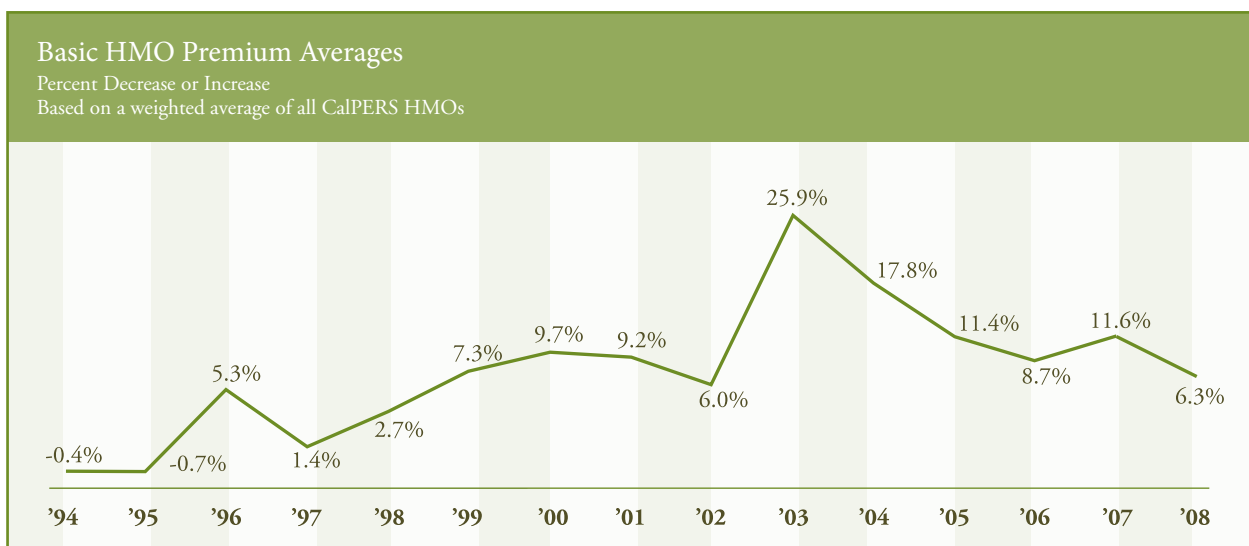
The cost of health care in rural areas has been an ongoing challenge. In some rural counties, costs are nearly three

times more than CalPERS statewide average. To address these disparities, we partnered with Blue Shield to hold Regional Council Meetings in certain rural counties to educate employers, members, and other key stakeholders about the drivers of health care costs, and to identify ways to improve health care affordability in these counties.

Some 19 meetings covering 12 counties were held. Most notably, Blue Shield was able to implement a true managed care model in San Luis Obispo County, and expand HMO coverage to Humboldt County. Blue Shield will continue to hold Regional Councils in other counties to seek ways to improve performance.

We have also started to realize the fruits of our labor as a result of the "Partnership for Change" initiative developed in September 2005. The goals of this initiative are to promote hospital performance transparency, manage hospital costs, and ensure a high-value hospital network. Two key components of the Partnership for Change are the California Hospital Assessment and Reporting Taskforce (CHART) and the Hospital Value Initiative.

CHART is a coalition of purchaser, health plan, hospital, and consumer stakeholders. It is sponsored by the California HealthCare Foundation, and supported by



1943

Any public agency in California can choose to contract with SERS for coverage (chapter 640, Statutes of 1943).

CalPERS and the Pacific Business Group on Health. In March 2007, the CHART Web site went live at www.CalHospitalCompare.org, allowing CalPERS members and other health care consumers to review ratings for 200 California hospitals, in areas such as quality of care, patient satisfaction, and safety measures.

Making hospital performance data publicly available is a major step forward in our effort toward increasing hospital transparency and accountability.

The Hospital Value Initiative is a collaborative project involving CalPERS, the Pacific Business Group on Health, and California hospitals and health plans. The project will analyze claims data to calculate cost measures for each hospital. CalPERS will use these cost measures in combination with CHART-designated quality measures to identify the highest value hospitals and direct our members to those facilities.

National Health Policy Leadership

CalPERS continued its leadership with the Public Sector HealthCare Roundtable. The Roundtable has been well-received on Capitol Hill as a conduit for public employers to provide input on health care quality and cost-effectiveness issues. It successfully lobbied Congress to adopt meaningful health information technology legislation that will improve the efficiency of the health care industry, facilitate increased transparency, reduce costs, and improve the overall quality of patient care.

The Roundtable has adopted policy statements that support increasing the use of health information technology and pay-for-performance initiatives; funding comparative effectiveness research; increasing access to more affordable medications; and providing federal support for retiree health coverage.

Member and Employer Engagement

We also stepped up our member engagement efforts related to wellness and disease management. In January, Blue Shield of California offered a new program called “Healthy Lifestyle Rewards” to all adult CalPERS Blue

Shield members. The program offers these members cash incentives of up to \$200 per year for making lifestyle changes and reducing health risk factors. We are working with our other health plans to develop similar wellness incentive programs.

We continue to encourage our members to make more informed decisions by providing tools and resources to help them be educated health care consumers. We promoted the CHART Web site so members could review data on hospital quality, performance, and safety. To help members select the right health plan for themselves and their families, we encouraged them to use the Health Plan Chooser and Health Plan Search by ZIP Code tools on the CalPERS Web site.

On the employer side, CalPERS began a comprehensive outreach effort to expand employer participation in our Health Benefits Program. Three first-time marketing activities were especially successful. We held “rate seminars” for our contracting agency employers immediately after approval of 2007 health plan rates. These seminars provided a summary of the new rates and an overview of health-care cost drivers and challenges. We also conducted “retention seminars” for agencies that considered leaving our health program. Finally, we implemented an “outreach assistance program,” placing nearly 1,000 telephone calls to our contracting agency employers. As a result of these efforts, we expanded our health program membership at contracting public agencies by 3.8 percent.

Also during the year, we established new contracts with 17 public agencies representing 3,395 members. In addition, staff recruited the largest public agency to join the Program over the past five years. The addition of the Los Angeles County Office of Education adds 11,000 new members into our Health Program.

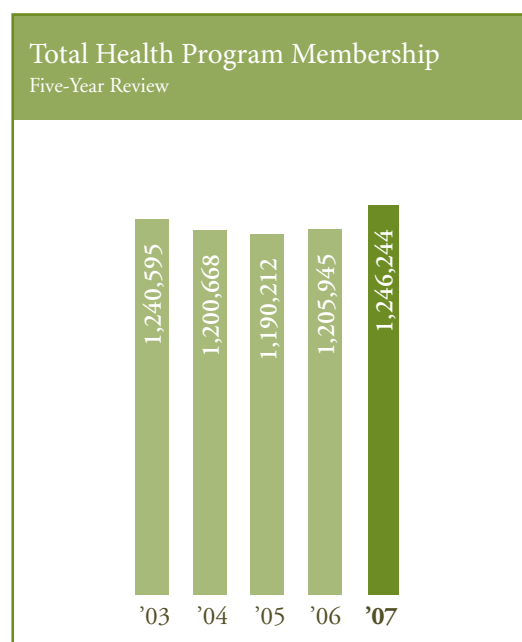
It was also a successful year for retention. We retained more than 99 percent of subscribed agencies—the highest level in the past several years.

Expanded Services

With the launch of a new PERS Choice and PERSCare pilot project in early 2006, CalPERS became the first employer health care purchaser in California to offer Telemedicine services as a benefit. Telemedicine uses high-speed telecommunication systems, computer technology, and specialized medical cameras to examine, diagnose, treat, and educate patients.

CalPERS developed the Telemedicine program to help health plan members who live in rural counties where it is difficult to obtain access to specialists, such as dermatologists, cardiologists, neurologists, and psychiatrists. Telemedicine expands access and decreases the wait time to see a specialist, leads to earlier diagnosis and treatment, and provides access to a specialist without having to travel great distances or lose work days.

CalPERS is committed to ensuring our members receive the highest quality of care in a facility that is most appropriate for their needs. We want to make sure members receive the right care at the right time in the right place. Our health plan partners also expanded their Centers of Excellence programs.



These programs require members to receive specified surgeries at hospitals that have the best performance records.

Self-Funded Health Plans & Long-Term Care

Our two not-for-profit, self-funded plans—PERS Choice and PERSCare—continued to experience positive cash flows and finished the year with strong asset levels exceeding 150 percent of reserve requirements for Basic and Medicare-supplement plans.

In November, the CalPERS Board of Administration increased premiums as a way of ensuring our Long-Term Care Program's financial stability. As a result, the Program began its annual application period in April 2007 with rate increases averaging more than 33 percent. Members had the option to either accept the premium increase with no benefit changes, or switch from longer-term, costlier policies to less expensive coverage.

When we started the Program in 1995, it was assumed investment income would provide sufficient reserves to help pay future claims. Two separate actuarial studies completed in 2006, however, indicated that if we continued to administer the Program as initially projected, future claims would exceed reserves.

More than 173,000 California public employees, retirees, spouses, parents, parents-in-law, and adult siblings are enrolled in the program, which provides financial protection from the high cost of extended care.

Long-Term Care Program Highlights	
<ul style="list-style-type: none">• 172,042 participants• \$1,397 average annual premium• \$241.5 million in annual premium income• \$87.3 million paid in benefits	

HISTORY OF INVESTMENT & CORPORATE GOVERNANCE PROGRAMS

In the 1960s, PERS had become the nation's largest public pension fund and a leader in the growing corporate governance movement. In its infancy the System invested in only corporate bonds, but broadened its investment portfolio into stocks following the passage of Proposition 21, and later in real estate and private equity. It took 64 years to break the \$100 billion mark. In only the next nine years, PERS broke \$200 billion. Now, at more than \$250 billion, the System may reach \$300 billion by the end of the decade.

Left: Youngest person to have SSC, 1960. Right: Excerpt from a Los Angeles Times article, 1966. Background: New York Stock Exchange, 1965.

1960-70



INVESTMENT & CORPORATE GOVERNANCE PROGRAMS

Investment returns for the fiscal year totaled 19.1 percent. It was the highest annual gain in nearly a decade and the best annual performance since 1997 and 1998. For the fourth straight fiscal year, annual returns continued in the double-digits. The average annual return over 10 years was 9.1 percent, compared with the actuarial performance goal of 7.75 percent. Assets totaled \$251.4² billion by June 30, 2007.

We exceeded industry benchmarks in all major investment portfolios, and we added approximately \$39.7 billion to the Fund by taking advantage of market opportunities. Our total global equity portfolio gained 23.7 percent, beating the benchmark of 22.9 percent. The Alternative Investment Management (AIM) Program, which specializes in private equity and venture capital holdings, earned 23.2 percent against the benchmark of 16.2 percent. Real estate returned 20.2 percent overall, compared with the benchmark of 16.6 percent. Fixed income returned 6.7 percent, beating the benchmark of 6 percent.

At the end of the fiscal year, 59.5 percent of our portfolio was invested in public equity, 24.4 percent in bonds and other fixed income, 8 percent in real estate, and 6.7 percent in private equity. A total of 1.4 percent was invested in cash equivalents.

Once again, we added value to the Fund at lower cost than our peers, according to a report by Cost Effectiveness Measurement (CEM), which tracks the performance of 122 global pension funds. CEM identified \$543.4 million in expenses for the 2006 year, which was \$105.5 million under the median for our peers. The skills of our investment staff, partners, and managers enabled us to add \$1.9 billion in annual value during the past five years compared with what we would have gained by relying only on market gains in passively-held index funds.

Investment Policy & Strategy

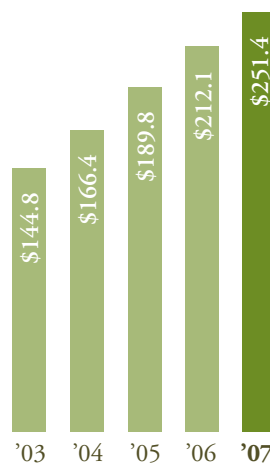
Historically, diversification of the CalPERS portfolio through a well-crafted asset allocation strategy has been a key element of investment performance.

Performance Benchmarks

Asset Class	Benchmark
Global Fixed Income	Lehman Long Liability Index Lehman World Government Bond Index, Ex-U.S.
Equity	
Domestic	PERS Wilshire 2500 Tobacco-Free Index
International	PERS SSGA Custom Index
Alternative Investments	Venture Economics Custom Young Fund Universe
Real Estate	NCREIF Property Index

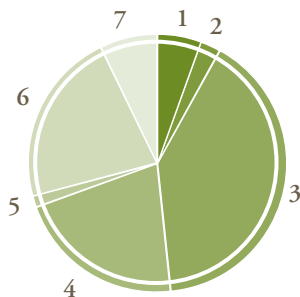
Growth of Investment Portfolio

at Market Value Five-Year Review
(Dollars in Billions)



Allocation of Investment Portfolio

at Market Value \$251.4² Billion
(Dollars in Billions)



1. Alternative Investments/Private Equity—\$16.8
2. International Fixed Income—\$5.7
3. Domestic Equity—\$100.6
4. International Equity—\$49.1
5. Cash Equivalents—\$3.6
6. Domestic Fixed Income—\$55.5
7. Real Estate—\$20.1

At the close of the 2006-07 fiscal year, the Board was considering major changes in the allocation mix and a proposed related restructuring of our successful real estate program.

In the first half of 2007, the Board considered a proposed new “inflation-linked asset class” for direct investing in infrastructure, commodities, inflation-linked bonds, and timber. By diversifying the portfolio, we will enhance long-term performance, protect the Fund, and offset any weaknesses in one area with gains in another.

We also named a new Senior Investment Officer for a newly created Asset Allocation and Risk Management Team. The unit is responsible for implementation of our overall allocations and risk management. The new officer will also be responsible for our new inflation-linked asset class.

CalPERS Asset Allocation

(Dollars in Billions)

Asset Class	Market Value	Current Allocation	Current Target ¹
Cash Equivalents	\$3.6	1.4%	0.0%
Global Fixed Income	\$61.2	24.4%	26.0%
Equity			
Domestic	\$100.6	40.0%	40.0%
International	49.1	19.5	20.0
Alternative Investments/Private Equity	16.8	6.7	6.0
Total Equity	\$166.5	66.2%	66.0%
Total Real Estate	\$20.1	8.0%	8.0%
Total Fund	\$251.4²	100.0%	100.0%

Notes:

¹ Target allocation effective January 1, 2005.

² Differences between investment values above and the values on the Summary of Investments on page 77 of the CAFR are due to differences in reporting methods. The Summary of Investments includes Net Investment Receivables/Payables.

1967

The name of SERS is changed to the Public Employees' Retirement System PERS.

Alternative Investment Management (AIM Program)

By the end of the fiscal year, we had more than \$16 billion in the private equity market and more than \$35 billion in active commitments to partners. The 16-year-old program has three components: partnerships that comprises all public equity investments; direct investments and co-investments in private companies alongside partners; and funds of funds that typically are managed by teams focused on niche markets.

To invest in promising niche markets, we committed several billion dollars to new vehicles during the year. These included:

- \$500 million to the second phase of the California Initiative Program, which targets underserved markets — with Hamilton Lane, a longtime CalPERS partner;
- \$400 million to Centinela Capital Partners, which oversees a new private equity fund-of-funds for emerging managers in historically under-capitalized markets;
- \$500 million to Oak Hill Investment Management for new venture capital opportunities;

A Closer Look at AIM Portfolio Diversification by Strategy

Portfolio Strategy

Corporate Restructuring	57%
Distressed Securities	9
Expansion Capital	13
Mezzanine Debt	1
Secondary Interests	2
Special Situation	4
Venture Capital	14
Total	100%

- \$800 million to Pacific Corporate Group (PCG) and \$100 million to EMAlternatives for investments in emerging markets;
- \$400 million to PCG for clean energy and technology investments; and
- \$700 million to Health Evolution Partners for an innovative effort to generate superior portfolio returns and improve quality and efficiency in the U.S. health

A Closer Look at Real Estate

Investments & Commitments
(Dollars in Millions)

Core Real Estate

Private	
Apartment	\$2,964.6
Industrial	4,319.3
Office	1,093.2
Retail	1,632.5
AFL-CIO Building Investment Trust	168.8
CIM Urban REIT	123.0
Total Core Real Estate	\$10,301.4

Specialized Real Estate

Private	
Agricultural Land	\$148.0
California Urban Real Estate (CURE)	1,767.0
Housing	2,229.2
International	1,352.3
Opportunistic Funds	1,383.5
Real Estate Technology	145.2
Senior Housing	402.0
Timberland	146.2
Public (REITs)	2,355.0
Total Specialized Real Estate	\$9,928.4
Total Real Estate	\$20,229.8¹

Note:

¹ Differences between investment values above and the values on the Summary of Investments on page 77 of the CAFR are due to differences in reporting methods.

care market. The firm is headed by Dr. David J. Brailer, entrepreneur and former National Coordinator for Health Information Technology.

Our California Initiative Program continued to generate healthy private equity returns with economic expansion in underserved urban and rural markets. The program had 131 companies at the outset of the fiscal year, including a full spectrum of businesses ranging in size from three to more than 22,000 employees. The vast majority of the businesses are in California.

Employment grew by 7 percent at 56 companies that have been in the portfolio since before June 30, 2005 and provided data in 2005 and 2006. Almost 40 percent of the companies’ California employees were residents of low-to-moderate income areas. Central Valley employment at California Initiative companies grew by 13 percent.

CalPERS was rated the “best private equity investor on the continent in 2007” according to a survey of General Partners conducted by Private Equity International. The survey ranked CalPERS by several categories including influence, sophistication, and negotiating skills. CalPERS ranked in the top five in all categories and earned the “number one” spot in multiple areas.

Real Estate

At the end of the fiscal year, our real estate assets totaled more than \$19 billion. The portfolio was nearly evenly balanced between the “core” sector of industrial, apartment, retail, office properties, and “non-core”

investments in housing, REIT securities, urban infill projects, opportunistic, international, senior housing, and natural resources.

Our real estate portfolio returned 19.9 percent from core properties, and 20.2 percent from non-core investments. By comparison, the industry benchmark earned 16.6 percent. We continued to tilt the portfolio away from domestic real estate toward more global investments. This will capitalize on new investment opportunities and sectors where we see the most attractive risk/return prospects.

Under our “green” real estate initiative, real estate partners reported total usage reductions of 8.9 percent in electricity and 14.7 percent in natural gas over the past two calendar years. The energy-saving measures were carried out under the CalPERS Energy Efficiency Plan, which has a five-year energy reduction goal of 20 percent by the end of the decade.

Global Equity

The Global Equity asset class closed the fiscal year with more than \$150 billion. International stocks generated a 29.8 percent return compared with the benchmark of 30.5 percent. Domestic stocks earned 20.6 percent; the benchmark was 20.3 percent.

CalPERS corporate governance funds, which invest in under-performing public companies, posted a 24 percent return compared with a benchmark that earned 19.5 percent. Hedge funds gained 16.9 percent, exceeding the benchmark of 10.4 percent.

A Closer Look at Global Public Markets

(Dollars in Billions)

	Domestic	International	Total
Fixed Income	\$55.5	\$5.7	\$61.2
Equities	100.6	49.1	149.7
Total Global Public Markets	\$156.1	\$54.8	\$262.9

International Equity & Fixed Income Investments Country Diversification

Up to \$25 million

Argentina	Papua New Guinea
Bahamas	Peru
Cayman Islands	Sri Lanka
Colombia	
Czech Republic	

\$50 to \$100 million

Chile	Philippines
Egypt	Poland
Luxembourg	Russia
New Zealand	

\$100 to \$300 million

Austria	Malaysia
Denmark	Portugal
Greece	Thailand
Hungary	Turkey
Indonesia	
Israel	
Luxembourg	

\$300 to \$500 million

Belgium	Mexico
Denmark	Norway
Finland	
Ireland	

\$500 million to \$1 billion

Brazil	Sweden
Hong Kong	Taiwan
South Africa	

More than \$1 billion

Australia	Netherlands
Canada	Spain
France	Sweden
Germany	Switzerland
Japan	United Kingdom
Korea	
Hong Kong	
Italy	
South Korea	

We chose five global equity managers to generate investment returns by relaxing the “long-only” constraint in their portfolios. The strategy allows managers in the new pool to “short-sell” U.S. market shares accounting for up to 35 percent of the total value of their CalPERS holdings. The managers were Analytic Investors, First Quadrant, Goldman Sachs Asset Management, Quantitative Management Associates, and State Street Global Advisors.

We also graduated Golden Capital Management from our Manager Development Program I to the mainstream Domestic Equity lineup. The firm was successful in attracting significant assets from investors other than CalPERS, demonstrated competitive risk-adjusted performance, and showed promise of enhancing the System’s overall manager structure.

In other actions, we made our first \$100 million investment of our new Manager Development Program (MPD) II to Piedmont Investment Advisors, a Durham, North Carolina firm specializing in quantitatively-focused equity and fixed income strategies. We share minority stakes in MDP II investments with Legato Capital Management, LLC, a joint venture partner. We expanded investment options for MDP II to include global emerging market and other strategies. Program managers have the same investment flexibility as our other external public equity and fixed income programs.

For other global equity programs, the CalPERS Board approved a plan to expand commitments with emerging investment management firms handling long-only public equity strategies that have less than \$2 billion in total firm assets. The new Emerging Manager Fund-of-Funds Program received an initial allocation of up to \$1 billion to be invested on an opportunistic basis. We also allocated a total of \$350 million to an emerging hedge fund-of-funds venture.

In two key global equity sub-asset classes, the Board approved new allocation ranges to potentially double

investments in corporate governance and hedge funds, from \$5 billion to more than \$12 billion. The corporate governance strategy entails seeding start-up funds that invest in underperforming public companies and strengthening their corporate governance practices to improve overall performance.

Fixed Income

Nearly 25 percent of the CalPERS portfolio was committed to investment in the fixed income asset class, with the goal of producing the highest total rate of return possible, consistent with a prudent level of risk and the System's liabilities. The Fixed Income Program had a market value of approximately \$61 billion at year's end. Fixed income investments in the U.S. returned 7.3 percent, compared with a benchmark of 6.5 percent. International fixed income investments gained 2.3 percent; the benchmark was a gain of 2.6 percent.

We broke new ground by committing \$500 million for investments directly linked to the prices of energy, metals, and agricultural products, and in companies that produce and distribute such natural resource commodities. The goal of the pilot commodities program was to further diversify the System's assets and take advantage of long-term market opportunities for positive returns in the resources sector.

Corporate Governance

Once again, our annual Focus List called attention to several U.S. companies with poor financial and corporate governance performance. The list included food industry giant Sara Lee; the Eli Lilly drug company; media titan Tribune Company; and the Marsh & McLennan insurance firm. Also on the 2007 Focus List were International Paper, Tenet Healthcare, data company EMC, Dollar Tree Stores, Corinthian Colleges, the Kellwood textiles and apparel company, and electronics-maker Sanmina-SCI.

Several Focus List companies were the targets of our proxy action. Those actions included:

- A resolution to let shareowners amend Eli Lilly bylaws by majority vote—a right provided by approximately 96 percent of other companies in the S&P 500 and Russell 1000 indexes;
- Opposition to the re-election of two board members of International Paper Corporation for failing to adopt annual board elections sought in 2006 by an overwhelming majority of IP shareowners;
- A proposal to have every Kellwood Company director stand for annual elections; and
- A proposal to remove the supermajority vote rule for articles of incorporation and bylaws at Dollar Tree Stores.

In other proxy actions, 39 percent of Hewlett-Packard shareowners voted for a CalPERS-supported proposal to allow shareowners to place director candidates on the company ballot. A CalPERS proxy access proposal at United Health Group received 42 percent of all votes cast. For the first time, we launched a new Web site to educate shareowners about the importance of the proposal, proxy access, and the problems at the company.

We also withheld support from several corporate directors, including Exxon Mobil Board Member Michael Boskin because he refused to meet with

2006 Focus List

- | | |
|-----------------------|--------------------|
| • Corinthian Colleges | • Marsh & McLennan |
| • Dollar Tree Stores | • Sara Lee |
| • Eli Lilly | • Sanmina-SCI |
| • EMC | • Tribune Company |
| • International Paper | |
| • Kellwood | |

shareowners about climate change. We opposed the reelection of four other directors to the boards of companies named in the backdating of employee stock options.

To curb excessive executive compensation, we urged fellow shareowners to support a change in the Shaw Group's executive compensation process. It proposed to require shareowner approval of any Shaw severance packages worth more than 2.99 times an officer's salary and target bonus.

Litigation over corporate governance issues continued to pay off, as we recovered \$117.7 million in a settlement of a securities lawsuit brought against Time Warner.

In response to continuing human rights abuses, we stepped up our engagement process under a new California law directing pension funds to divest from companies found to be doing business in Sudan.

In 2007, CalPERS was named to the list of the 100 with the most influence in American corporate governance by *Directorship* magazine.

Diversity

CalPERS and the California State Teachers' Retirement System (CalSTRS) unveiled a groundbreaking database of emerging managers and financial service providers, and sent it to 3,000 top U.S. institutional investors. Many of the 721 participants in the Emerging Managers Financial Service Provider database have a high percentage of employee ownership and diverse experience in historically underserved markets. The database is used to help identify potential investment managers and partners.

Environment

A new survey funded by CalPERS and the California State Teachers' Retirement System, the first of its kind, found that the world's utilities are failing to fully respond to the threat of carbon emissions. The survey

of 265 global power companies augmented other research on global warming conducted by the Carbon Disclosure Project, a venture of 225 institutional investors with \$31.5 trillion under management.

As part of our environmental initiative, real estate partners reported total energy usage reductions of 8.9 percent in electricity and 14.7 percent in natural gas over the past two calendar years, making progress toward our five-year energy reduction goal of 20 percent. The second annual report for the CalPERS Energy Efficiency Plan showed that partners significantly reduced electricity and natural gas use in 2006, adding to earlier reductions in 2005.

In 2007, CalPERS was named one of the world's top 15 pension funds in promoting environmental investment strategies by the UN Environment Programme Finance Initiative and the UK Social Investment Forum.

CalPERS Supplemental Income Program

Through this voluntary program, local public agency and school members can make contributions that will enhance their retirement security. During the past 11 years, we have made many enhancements to the program to respond to the needs of public employees.

In the 2006-07 fiscal year, we made new investment options available to employees of local public agencies and schools who participate in the Supplemental Income Plans. All major sectors of the stock and bond market are represented within nine core funds of the 457 Deferred Compensation (DC) Plan that are closely tied to CalPERS products and proven managers. The new lineup was made available to approximately 23,000 participants of some 600 public employers who offer the 457 DC Plan.

CalPERS Member Home Loan Program

The CalPERS Member Home Loan Program celebrated 26 years of helping California public employees realize the dream of home ownership. Since its inception in 1981, the program has made more than 128,000 real

estate loans — resulting in a total real estate loan volume of more than \$20.7 billion.

The Member Home Loan Program is available nationwide and offers members security, exclusive discounts, and choice when they purchase or refinance a home. The Program is available to members in all 50 states. In addition to the exclusive member discounts, the Program offers options that help make homes affordable, including several 100 percent financing options, a variety of loan choices that lower monthly payments, low-to-no down payment options, closing cost assistance, discounts, and rebates.

CalPERS Member Home Loan Program funded 1,081 real estate loans totaling more than \$265 million during the fiscal year.

The Role of California Investments

CalPERS is one of the largest investors in California, generating jobs and services, and giving a significant boost to the state’s economy. In the early 1980s, we began our commitment with investments in property mortgages and real estate equity. By June 30, 2007, we had nearly \$27 billion invested or committed in California across all of our asset classes.

We expect California investments to deliver a return commensurate with similar investments elsewhere of comparable risk. Such investments go forward solely on the basis of their potential to maximize our investment returns. They must be financially comparable to other available investment alternatives.

Besides providing competitive returns, California investments help strengthen the State’s economy and the well-being of our members and employers. In the most comprehensive study of its kind, the Applied Research Center of California State University, Sacramento, selected \$8.3 billion of the \$26 billion we had invested in California in 2006 that could be reasonably traced for economic impacts.

The report, “The Economic Impacts of CalPERS Investments on the California Economy,” estimates that direct investment, indirect spending and business activity, and the induced ripple effect of expended wages and profits resulted in an overall impact to the state’s economy of \$15.1 billion. The economic impact created 124,377 jobs, returned state and local tax revenues of nearly \$832 million, and generated employee compensation of \$4.9 billion to exceed the payrolls of heavy construction, civil engineering, and motion picture and video production industries.

Overall, our contributions to the California economy made us a bigger player than machinery manufacturing, oil and gas extraction, and the amusement, gambling and recreation industries.

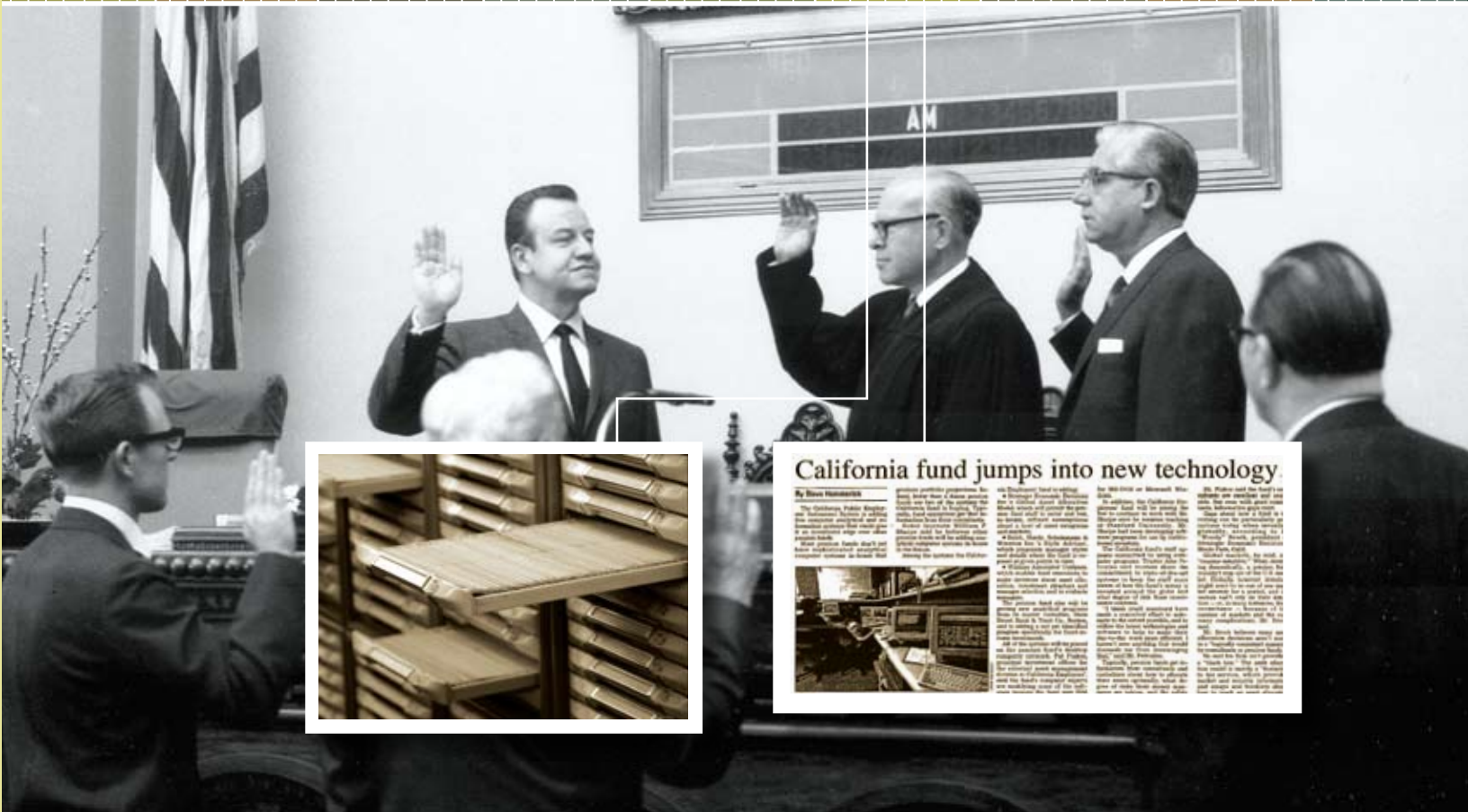


HISTORY OF ENTERPRISE-WIDE OPERATIONS

PERS became better known as the California Public Employees' Retirement System (CalPERS). Its workplace thrived, with state-of-the-art technologies complementing the System's open, diverse and progressive culture. In the 1990s, the System engaged in developing its most formal, enterprise-wide strategic plan. It documented the System's goals, articulated its commitment to fostering a first-rate work environment and culture, and reinforced its business philosophy for the next decade.

Left: CalPERS Chainindex cards, 2007. Right: Excerpt from a Sacramento Bee, 1980. Background: Jesse Unruh being sworn into duty, 1970

1970-80



California fund jumps into new technology

By Bruce Harnett

The California Public Employees' Retirement System (CalPERS) is adding new technology to its existing system of processing payroll and pension payments.

CalPERS officials say the new system will be in place by the end of the year.

The new system will be a major step forward for CalPERS, which has been working to modernize its operations for years.

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STRENGTHENING ENTERPRISE-WIDE OPERATIONS

Throughout our 75-year history, we have been committed to continually strengthening our organization. During the 2006-07 fiscal year, we made progress on many internal initiatives and projects that will enhance our capacity to serve members and employers. Key activities in the area of enterprise-wide operations included moving forward with the development of an integrated information technology platform; expanding our Succession Planning and Workforce Management Plan; and increasing our Diversity Outreach efforts. By continually adapting our enterprise-wide operations, we will be prepared to meet the challenges and opportunities of the future.

We began the fiscal year with a new Three-Year Business Plan that identifies objectives to be achieved through 2009 to meet the goals outlined in our Strategic Plan. The objectives in “The Enterprise” area focus on education and communication with members and stakeholders; our employees and work culture; and our global leadership in pension and health benefits.

Organizational Effectiveness

We made significant progress on our five-year plan to create an integrated database system that harnesses the power of the Internet to provide faster, more reliable, and more cost-effective service. The flexible technology will enable us to enhance the level and types of services we provide. Once the new system is in place, members and employers will have 24/7 access to a wide variety of account and demographic information via the Internet. Transactions that now take days or weeks to complete will be processed in a matter of hours.

Internally, we created the Enterprise Transition Management (ETM) Project to facilitate change management and address the “people side” of implementing the system. ETM’s role is to assist staff in understanding and preparing for the new “virtual” business model. It will ensure that employees who are

impacted by the new system receive the training they need to succeed. ETM’s focus during the year was assessing readiness for change. A vendor was selected to assist with transition management. In partnership with the Human Resources Division, ETM created a training program for managers and supervisors that will increase their ability to be effective leaders during periods of transition.

We also created an Employer Advisory Group, which is composed of representatives from 32 employers. The Advisory Group has provided input in the areas of system design, business processes, and implementation readiness, such as training and support.

Protecting the security of our members’ personal information is vitally important. We recently established a policy to prevent unnecessary use of members’ Social Security numbers. Under this policy, there must be a sound business reason to use the data. Protection of the information must be at a maximum level, and approval for such access must be given by an Assistant Executive Officer or above.

We also created a Privacy Protection & Security Task Force to conduct a system-wide internal review of the way CalPERS receives, stores, and utilizes members’ personal and confidential information and make recommendations to enhance data security. In addition, the Task Force will assess a new unique member identification numbering system that may replace Social Security numbers as a means of identification.

Our Enterprise Compliance Office, which was created in 2004, has become a model for the nation. Over the past year, the Compliance Office hired additional staff, gathered best practices from compliance experts, researched and evaluated compliance tools, and provided compliance training to staff. In addition, the office completed compliance risk assessments of policies, rules, and regulations for our pension, health,

and investment programs. Our Chief Compliance Officer spearheaded the creation of the National Council of Compliance Officers from national and international pension funds. The group held three meetings to discuss the challenges faced by compliance officers in implementing effective programs and to share successes.

Our Office of Audit Services conducts internal and field audits of our contracting employers to increase assurances that CalPERS assets are safeguarded, that operating efficiency is promoted, and that compliance is maintained within prescribed laws, rules, and policies. During the year, the office completed 53 public agency reviews, offering more than 260 value added - recommendations. The office completed nearly 60 health, real estate, and other contracted audits; provided consultation on nine special projects; and completed 30 internal audits of the control environment.

The Office of Public Affairs and the Office of Governmental Affairs conducted an Ambassador Program spokesperson pilot project. The California Connects - CalPERS in Your Community Initiative is designed to broaden member and stakeholder understanding of CalPERS value. CalPERS and selected member volunteers completed visits to four freshmen Assembly members. The volunteers provided information on CalPERS role in the economy at both the State and local level.

Diversity Outreach Program

A commitment to diversity is CalPERS' fundamental business philosophy of CalPERS. Our staff includes employees who are fluent in 27 languages. All branches of our organization have a representative serving on the Diversity Outreach Committee, which is responsible for planning, developing, and promoting a variety of ethnic, cultural, and educational events. One of the events they organize is our annual Cultural Diversity Day. This year's event was twice the size of

last year, and it included international food, educational exhibits, and demonstrations of a wide range of cultural traditions. The event was also a community outreach, and during the celebration, employees filled a 50-gallon drum with 300 pounds of food and raised more than \$600 for the Sacramento Food Bank.

Diversity is also important in the services and contracts we engage in with outside businesses. Our Diversity Outreach Program created new marketing and outreach tools. The new tools help us reach larger audiences and encourage more diversity through certified small business and disabled veteran business enterprise contract participation.

In the investment arena, we believe that our competitive advantage is best sustained by having the broadest possible investment talent, experience, and perspective. In November 2006, we hosted an investment workshop for Asian/Pacific Islander investment managers. The workshop served as the platform that preceded the launch of the Association of Asian American Investment Managers (AAIM). In June 2007, the Legislative Black Caucus sponsored an Investment Workshop at CalPERS headquarters for its members. At the workshop, CalPERS and other groups presented investment information and strategies to California legislators and interested financial and business leaders on the opportunities that exist for emerging money managers.

During the year, CalPERS partnered with the California Public Utilities Commission, the Department of Insurance, and the State Bar of California to plan the creation of the California Aspire Achieve Lead Pipeline Project (CaAAL). CaAAL is a unique statewide model with a mission of closing the achievement gap among California students to provide a competent pool of individuals who are prepared to influence and shape California's economic and political future. The model for the Pipeline Project grew out of

1977

Separate male and female benefit factor rates are abolished in favor of a single rate table.

studies showing that students of diverse backgrounds are failing early in life to gain the tools that will lead to successful completion of higher education and a subsequent professional career. The Pipeline Project extends from P-20 (pre-school through graduate school) to advancement and retention in a chosen profession.

Leadership and Employee Development

Throughout our history, our employees have always played a vital role in our ability to effectively serve members and employers. To ensure that we have skilled and knowledgeable staff in place as we move into the future, we continually invest in the training and development of our employees.

As more baby boomers reach retirement age, our organization faces a dual challenge. Many of our experienced knowledge workers will be leaving in the next few years. This loss of human capital will occur just as our member population experiences a surge in the number of retirees. In order to meet this two-pronged challenge, we implemented a Succession Planning and Workforce Management Plan (SPWM).

The first part of the plan addresses developing current leaders so they are prepared to advance and take on new responsibilities. Our commitment to leadership excellence is a key element of our organization's tradition and values, and it is essential to our continued success in the future. During the year, we expanded our ADDIN AudioMarker 637 Leadership Acceleration Workshops to senior and middle managers. The workshops focus on team building and leadership skills; developing a shared approach to thinking, analyzing, and decision-making; and enhancing a cross-functional understanding of our business and the ability to plan and implement change strategically.

A new element of our SPWM is the CalPERS Workforce Planning Workshop, which gives leaders tools for planning future workforce needs. A pilot program was held with the Member and Benefit Services Branch, and the workshops will expand to other branches in the coming year. In addition to the workshops we hold for

managers and supervisors, we continue to provide ADDIN AudioMarker 1664 a range of training programs for all employees to enable our entire staff to grow professionally and to gain additional skills and knowledge.

Our Information Technology Division implemented a Succession Management Plan that accommodates their unique needs. The plan has been adopted statewide for use by Chief Information Officers (CIOs) in every department. The State CIO's Office submitted the plan to the National Association of State CIO's (NASCIO) for consideration in their national award process.

Community Involvement

Involvement in our community has long been a part of our organization's culture. As in past years, our employees participated in several activities to give back to the community. Our fundraising efforts for the California State Employees Charitable Campaign broke records, as we raised more than \$353,000—a 20 percent increase over last year. Key fundraising activities included a golf tournament (which raised 23 percent more than last year) and a Chili Cook-Off, Cake, and Gift Basket Auction (which raised 124 percent over last year). During the 2006 Annual Holiday Food Drive, employees donated nearly 40 tons of food. This provided the equivalent of more than 75,000 meals for needy individuals and families.

In April 2007, employees were joined by friends and family members to support the March of Dimes. With 120 walkers raising more than \$20,000, we almost doubled last year's participation and results. A month later, we had the largest government team at the Susan G. Komen Race for the Cure, and our 155 participants raised more than \$25,000. In addition, staff donated 388 pints of blood at several blood drives held throughout the year.

Feedback and Recognition

The quality and dedication of our more than 2,100 employees was acknowledged in 2007, when CalPERS received the prestigious Sacramento Workplace Excellence Leader (SWEL) Award. We were recognized for the outstanding community involvement of our employees, our benefits and programs, our work environment, and our core values. All our employees share in this award, which affirms our reputation as a destination workplace in the region.

In May 2007, we recognized 32 employees with APEX (Achieving Performance Excellence) awards. APEX recipients are nominated and judged by their peers to have achieved exceptional skills and a commitment to our core values, customer service, and the organization's overall success. We also expanded the scope of our quarterly Achieving Communication Excellence (ACE) awards to include recognition for commitment to core values and customer service as well as communications. During the year, 515 employees received ACE awards.

We were honored to receive two awards for our efforts to protect the local environment. First, CalPERS was one of seven recipients of the Sacramento County Pollution Prevention Award, which salutes innovative programs to reduce waste, limit air pollution, conserve resources, and protect environmental quality. Additionally, CEMEX, one of the world's largest cement companies, named CalPERS the national winner of its Institutional/Industrial Award for outstanding achievement in the design and construction of our new headquarters complex.

In early 2007, our CEO Fred Buenrostro was one of three recipients of the 9th Annual Hall of Fame Award, presented by the New York Chapter of the National Association of Securities Professionals. The award recognizes a commitment to diversity, and it is the highest honor given by the organization.

For the 11th consecutive year, CalPERS received the "Certificate of Achievement for Excellence in Financial Reporting" from the Government Finance Officers Association. We were also recognized again for "Outstanding Achievement in Popular Financial Accounting" for our Operations Summary.

LEGISLATIVE HISTORY

Throughout its 75-year history, CalPERS destiny was shaped by key legislation. In 1939, legislation sponsored by the California League of Municipalities permitted cities, counties, school districts and special districts in California to contract with the System. Voters passed Proposition 21 in 1984, giving CalPERS the authority to broaden its investment portfolio into stocks and other asset classes. A 1992 ballot initiative—Proposition 162—put an end to State attempts to take from the investment portfolio, and gave the CalPERS Board exclusive authority and fiduciary responsibility over the administration of the System and its assets.

Left: PERS logo change, 1985. Right: Illustrated Lincoln Plaza, 1986. Background: Lincoln Plaza ground breaking ceremony with Bob Carlson, 1983.

1980-90



PERS To Get A Face Lift

Look for the new PERS logo!



The new logo was developed by the System's Publications Section as part of the new PERS Identity Program. The primary objectives of the program are to distinguish the service PERS provides from other State agencies, to foster a favorable and strong image, and to serve as a quality control

STATE & FEDERAL LEGISLATIVE UPDATE

The CalPERS Board of Administration maintains an active legislative program for the benefit of all members and employers, and works with staff and other stakeholders to develop legislative positions and proposals. During the fiscal year, the Office of Governmental Affairs analyzed and monitored hundreds of bills and established positions based on our Board's legislative policy standards that were designed to serve the best interests of our members and employers.

State Legislative Update

Listed below is a summary of some of CalPERS-related legislation last year. The new laws will become effective on January 1, 2008, unless otherwise noted in the summary.

AB 221, Chapter 671 (Anderson)

Creates the California Public Divestment from Iran Act. Prohibits CalPERS and CalSTRS from investing public employee retirement funds, as defined, in a company with business operations in Iran that meets the following criteria: is invested in, or is engaged in, business operations with entities in the defense or nuclear sectors of Iran, or invested or engaged in the development of petroleum or natural gas resources of Iran and that company is subject to sanctions by the Federal Government; or in a company engaged in business operations with an Iranian Organization that has been labeled a terrorist organization by the U.S. Government. The provisions of this act are considered severable. If any provisions are deemed invalid, the remaining provisions remain in effect. This bill requires the Boards of these retirement systems to sell or transfer any investments in these companies within specific time frames and report to the Legislature regarding these investments.

AB 299, Chapter 130 (Tran)

Makes technical, nonsubstantive changes in various provisions of law to effectuate the recommendations made by the Legislative Counsel to the Legislature.

AB 384, Chapter 255 (Portantino)

Extends the Public Employees' Medical and Hospital Care Act (PEMHCA) health benefit coverage to the surviving spouse, as defined, or eligible family member of a permanent career civilian federal firefighter, including temporary federal firefighters, who resides and whose regular duties are to perform firefighting services in this state and who dies as a result of an injury or disease sustained in the line of duty.

AB 554, Chapter 318 (Hernandez)

Provides all public employers the option to participate in the California Employers' Retiree Benefit Trust Fund offered by the CalPERS. This Fund is used as an investment vehicle to offset the effects of the new financial disclosure requirements established by Governmental Accounting Standards Board Statement 45 (GASB 45). Employers benefit from CalPERS quality service with relatively low administrative overhead costs and a history of exceptional risk-adjusted investment performance.

AB 754, Chapter 321 (Committee on Public Employees, Retirement and Social Security)

Provides legislative approval for recent addenda to bargaining agreements that, among other things, authorize a 5 percent salary increase for CalPERS and CalSTRS Investment Officer III positions, effective January 1, 2007, and allow the parties to meet and confer to establish an incentive award program for the class. Also allows the parties to extend similar salary increases for Investment Officer I and II classes on or after January 1, 2008, and establishes a pay differential for Investment Officers that become Chartered Financial Analysts. Urgency measure.

AB 1296, Chapter 698 (Torrico)

Requires a health plan that contracts with CalPERS to provide to the Board and CalPERS staff, and any contractor or consultant of the system, actual claims payment data for each member, and contract payment amounts for services billed for each individual

hospital. Allows hospitals, upon request, to validate the data that has been provided to the Board. The information will be aggregated in compliance with the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and held proprietary by CalPERS.

AB 1307, Chapter 511 (Krekorian)

Allows CalPERS to provide for permissible in-service distributions of employee contributions on behalf of participating employees in the Supplemental Contributions Program (SCP). Expands eligibility for participation to all California public agencies, including school employers, and their employees that contract for the SCP, without regard to membership in the CalPERS defined benefit pension plan.

AB 1317, Chapter 333 (Mullin)

Adds General Counsel to the list of key positions under which the CalPERS Board of Administration and the Board of the California State Teachers' Retirement System has authority to set compensation, conditions of employment and performance standards. It also places the General Counsel position in a modified civil service classification, and prohibits those that hold their position for less than five years from representing or becoming employed by a company attempting to influence or conduct business with CalPERS for a period of two years after leaving the system.

AJR 5, Chapter 116 (Hernandez)

Declares that the elimination of the Government Pension Offset and the Windfall Elimination Provision would greatly improve the opportunities for hiring and retaining teachers, peace officers, firefighters, and other public employees in California, and encourages the President and the Congress of the United States to repeal the Government Pension Offset and the Windfall Elimination Provision from the Social Security Act.

SB 14, Chapter 355 (Negrete McLeod)

Provides "optional" membership rights to members of the California National Guard, who do not qualify for CalPERS. Creates member classification of "National Guard member" for such persons, who generally receive the same benefits as state miscellaneous members. Provides right to purchase credit for previous California National Guard service. National Guard members pay both the employee and employer share of contributions for membership and previous service, and will be excluded from certain provisions under the law to minimize potential costs to the state.

SB 86, Chapter 179 (Committee on Budget and Fiscal Review)

Authorizes CalPERS to establish a sub-account entitled the Account for Retiree Drug Subsidy Payments (RDS) within its Contingency Reserve Fund (CRF). This account would be established to hold subsidies collected through the federal Medicare Prescription Drug Improvement and Modernization Act, commonly referred to as Medicare Part D. This bill specifies that all funds placed into the account could be appropriated by the Legislature through the annual Budget Act. Urgency measure.

SB 221, Chapter 74 (Runner)

Specifies that final compensation for members of the Legislators' Retirement System that enter the System on or after January 1, 2008, is based on the highest annual compensation that was earnable during a specified consecutive 12-month period of employment.

SB 235, Chapter 344 (Negrete McLeod)

Establishes the California State University Annuitant Vision Care Program to be administered by the CSU system. The CSU Annuitant Vision Care Program provides vision care coverage to specified CSU annuitants and their dependents, as contracted for by CSU. Requires CSU to administer the plan on or after July 1, 2008.

1986

CalPERS Moves into the new Lincoln Plaza headquarters building.

SB 431, Chapter 256 (Aanestad)

Current law requires that in the case of a trial court located within a county contracting with CalPERS for retirement benefits, the trial court and the county must participate under a joint contract with CalPERS, resulting in pooled assets and liabilities and a single employer contribution rate. Among other things, SB 431 requires CalPERS to prepare on or before October 1, 2008, and from existing resources, a separate computation of the assets and liabilities of Butte and Solano counties and their respective trial courts, with the split calculated retroactively from January 1, 2001, and based on the most recent annual actuarial valuation. Requires those entities to supply relevant information to CalPERS, including any lump-sum payments, and which active, inactive, and retired members shall be considered employees of the respective county and the trial court, as specified. Also provides that nothing in its provisions shall be construed to effect the combined calculation of assets and liabilities for purposes of setting the employer contribution rate for both a county and a trial court. Urgency measure.

SB 581, Chapter 651 (Wiggins)

Transfers administration of the Volunteer Firefighters Length of Service Award Program from CalPERS to the California State Fire Employees Welfare Benefit Corporation. The award system would be administered by the Corporation's board and would have to comply with specified requirements. Requires the CalPERS Board of Administration to transfer associated confidential participant data and files to the Corporation. Indemnifies and holds harmless CalPERS, its officials and employees as a result of the transfer to the Corporation.

Federal Update

The CalPERS 2007 Federal relations program actively engaged issues including the sustainability of public pension benefits, the establishment of a pathway for the approval of generic biopharmaceutical drugs to the repeal of the Government Pension Offset (GPO) and Windfall Elimination Provision (WEP) of the Social

Security Act, and to the adoption of a meaningful process by which shareowners are able to nominate corporate directors. In each of these instances and many others, CalPERS worked to ensure that the interests of the System were addressed by Congress and other Federal policy-making venues.

Following more than a year of study, the U.S. Government Accountability Office (GAO) issued a report entitled, "State and Local Government Retiree Benefits: Current Status of Benefit Structures, Protections, and Fiscal Outlook for Funding Future Costs." The GAO found that most state and local government pension plans were well-funded and on track for full funding in the near future. CalPERS responded to the report hoping it would put to rest the myth regarding the financial soundness of public pension funds.

Although comprehensive health care reform is not likely before the 2008 presidential election, CalPERS continued to advocate for incremental reforms that would reduce program costs, increase overall quality of care and improve transparency and accountability. In addition to maintaining its leadership of the Public Sector HealthCare Roundtable, we urged members of Congress to pass legislation that would increase the availability of generic drugs; legislation that would empower the Federal Trade Commission to review potentially anti-consumer legal settlements between brand-name drug manufacturers and generic drug makers; Health Information Technology legislation – including efforts to expand e-prescribing; and opposed efforts to shift costs for end-stage renal disease (ESRD) from the Medicare program to CalPERS and all other employer-provided health programs.

In testimony before the U.S. House of Representative's Committee on Oversight and Government Regulation, CalPERS Board Member Priya Mathur highlighted the high and unsustainable cost of biopharmaceuticals and urged Congress to establish a safe pathway for the approval of biogenerics.

Congress turned to CalPERS for information and guidance on a number of key investment-related topics during 2007. At a U.S. Senate Finance Committee hearing on private equity investments, CalPERS Chief Investment Officer Russell Read stated, “Generally, private equity is an attractive asset class to sophisticated investors like CalPERS because of the contribution it can make to an overall portfolio. This contribution is evident in historical quantitative performance and in the unique attributes of this asset class.” He added, “We have a fiduciary duty under the California Constitution to do all we can to ensure the stability of our public pension fund on behalf of its members and California taxpayers – and to maximize investment returns and minimize contributions.”

Later in the year, Dr. Read testified before a subcommittee of the U.S. Senate Banking Committee on the issue of environmental disclosure. In his statement he said, “Increasing evidence indicates that climate change presents material risks to numerous sectors of the economy and to the financial market place. These risks may include operational, market, liabilities, policy, regulatory, and reputation risk. Accordingly, CalPERS has advocated for the right of shareowners to obtain information on environmental risks and opportunities to make informed investment decisions.”

As a central part of its commitment to corporate accountability, CalPERS has been a national leader in the fight to preserve shareowners’ rights to nominate candidates for corporate boards of directors. Throughout 2007, CalPERS took its argument to the Chairman and members of the Securities and Exchange Commission (SEC) and to key Members of Congress. At a hearing before the U.S. Senate Banking Committee on proposed SEC proxy access rules, CalPERS Senior Portfolio Manager for Corporate Governance Dennis Johnson summarized the CalPERS position by saying, “The right to participate in the governance of the corporations we own is a fundamental aspect of corporate law, and an invaluable

tool to help preserve and enhance investments we made for our plan participants.”

For those CalPERS members who retire from positions not covered by Social Security, the impact of the GPO and WEP provisions of the Social Security Act is frequently devastating. The CalPERS Board of Administration has long supported the repeal – or significant reform – of both of these unfair and arbitrary provisions. In a significant step forward in that process, the U.S. Senate Finance Committee’s Subcommittee on Social Security, Pensions and Family Policy held a hearing on the impact of GPO/WEP on the retirement security of public employees. CalPERS Board Member Priya Mathur told the committee that the GPO law disproportionately impacts low-wage worker, particularly women. She testified that, “Most of those adversely affected are women who began their careers expecting to retire with both a public pension and a Social Security spousal benefit. It’s a frightful shock when they realize that they will not receive a much needed portion of their expected retirement income.”

FPO

SEE OP SUM _TABS FILE

SOLID FUTURE

More than seven decades after the inception of CalPERS, the organization's leaders and staff continue to broaden the company's reach and services. The System is on a path to becoming an integrated full-service provider for financial- and health-related products and services for its members and employers.

By remaining true to its guiding principles, CalPERS is on a steady, successful course its founders established 75 years ago. CalPERS solid history will continue to be the foundation for building a secure future.

Left: CSEA benefits rally, 1991. Right: an Excerpt from The New York Times, 1996. Background: Lincoln Plaza Expansion, 2005.

PPO

SEE OP SUM _TABS FILE

1990-00



Return on Investment Rises 20% for Calpers

SACRAMENTO, June 18 (AP) — The California Public Employees' Retirement System reported today that it had a 20.1 percent return on investments in the year that ended on March 31, up from an 8 percent return a year earlier.

Calpers is one of the largest institutional investors in the world. It manages assets of \$99.6 billion, providing retirement and health bene-

was helped by an asset allocation policy adopted in December 1994.

The policy calls for a three-year shift of fund assets into the higher-returning equity markets. The one-year Calpers return on total equity investments yielded 26.8 percent.

"The Calpers fund has more than doubled over the last 10 years due to continued top performance," said Charles Valdes, the Calpers invest-

THE YEAR AHEAD

Our new Three-Year Business Plan will be the blueprint for our activities during the year. The plan outlines key objectives for our three primary lines of business: pension, health, and investments as well as for overall enterprise-wide operations. Every objective we pursue will support our historic commitment to the retirement and health security of our members.

Many of our objectives focus on preparing for the dual challenge we will face as more employees and more members approach retirement. We will continue to enhance myCalPERS to expand the ways in which members can serve themselves. In the pension area, we will add an online application for service retirement. In the health area, we will add information about current enrollment as well as the employer and employee share of the premium. Retirees will have access to a wider range of information, and we will create a retirement calculator specifically for members of the Judges' Retirement System. The CalPERS Education Center and myCalPERS will be integrated to allow members to view the history of educational seminars they have taken and receive recommendations for additional courses based on their age or career status.

The CalPERS Education Center offerings will be significantly expanded during the coming year. We will add online self-study courses that members can take any time. Members will also be able to go online to schedule one-on-one appointments at regional offices. Online educational services for employers will be enhanced with the addition of a variety of self-study courses. This new service will make it easier for employees of public agencies located in remote areas to receive education about CalPERS services and procedures.

Our Customer Contact Center will implement several changes designed to improve member experience when calling CalPERS. A new "virtual hold" technology gives members who call during

peak periods option of continuing to hold or hanging up and being called back. Members who choose to be called back will maintain their place in the queue, and the system will automatically dial their number when they are next in line to be helped.

Member participation in our annual Retirement Planning Fairs increased by 33 percent in 2007. In response to member input, we are developing ways to make next year's fairs even more accessible, with expanded locations and hours.

Our responsiveness to employers was demonstrated this year by our launch of the California Employers' Retiree Benefit Trust Fund to prefund future OPEB (other post-employment benefit) obligations. In the coming year, we will pursue legislation to allow public agencies that do not contract with CalPERS for their health benefits to participate in CERBT. We will also explore the possibility of providing actuarial valuation services to employers.

Early in the new fiscal year, we will be implementing an annual mandatory information security awareness training for employees. The training will emphasize the basic concepts of information security, including how confidential member information must be protected, how to securely manage both electronic and paper documents, and why such security is important for CalPERS and our members.

The Workforce Planning Workshop — which was piloted this year in the Member and Benefit Services Branch — will be rolled out to other divisions. The workshop will assist leaders in planning their future human resources needs. We will also be developing a recruitment strategy that will take into account the coming retirement of many knowledge workers as well as the changes that will result when our new database system is operational.

In the coming year, we will continue to develop the technology infrastructure for our new integrated system. The system will deliver increased operational capacity at lower IT costs while being flexible, agile, reusable, and easily maintained. It will enable rapid development and deployment of the business structure needed to accommodate new member and employer services. Specific activities during the year will include finalization of general system requirements and design, implementation of technical architecture, and application development. Protecting the security of member information will be a top priority as the system takes shape.

To ensure that the new system meets the needs of employers, we will report back to the participants in our Employer Advisory Group to explain how the input they provided at the first two meetings will be incorporated. Once the system design is complete, we will obtain feedback on employer forum materials, training materials, and user documentation.

Our Enterprise Transition Management Project will conduct ADDIN AudioMarker 377 ongoing communication with staff on the status and progress of system development. We will assess current staff knowledge and skills and analyze what employees need to learn to perform their new roles. We will also work with our Human Resources Division to redesign current training programs and develop new courses to ensure that employees are fully prepared for the new system.

During the next fiscal year, we will complete the development of the Enterprise Management of Billings, Accounts Receivable, and Collections (EMBARC). EMBARC began several years ago with the purpose of upgrading our financial systems and establishing a staff of dedicated accounts receivable collectors. It supports an automated billing and collection system that is integrated with enhanced accounting controls.

Our Diversity Office is planning a number of new activities both internally and externally.

First, in keeping with our mandate to engage with small and disabled veteran business enterprises (DVBES), we will conduct outreach to Economic Development and Veterans Affairs offices across the State. We will also build an internal awareness campaign to educate contract and procurement staff about using small businesses and DVBES to provide goods and services to CalPERS. To further staff understanding of the importance and value of diversity in our work environment, we will incorporate diversity education into our career development models.

Our Enterprise Compliance Office has several activities planned for the coming year. They will be developing a compliance program in the “enterprise” business line, which includes branches and divisions not serviced by the existing pension, health, and investment compliance programs.

Another key focus in the coming year will be developing programs and policies to educate members and employers about the value of lifestyle and health care choices. We will work with health plans to create member incentive programs similar to the one established by Blue Shield, and we will encourage employers to partner with us and health plans to promote employee wellness. We will also begin to provide strategic, targeted, consistent intervention for members with chronic conditions to help them successfully manage their condition.

To further optimize the value we offer members and employers we will continue to pursue innovative contracts with our health plan partners. The expansion of high-performance physician networks will be a priority. The Blue Shield Regional Councils will continue to explore health care cost drivers and ways to improve affordability in rural areas.

1992

California voters approve Prop. 162, providing the CalPERS Board absolute and exclusive authority over the administration and investments of retirement funds.

As the fiscal year closed, the CalPERS Board was considering several Investment Office strategies aimed at sustaining our impressive double-digit annual returns in an ever-changing and sometimes volatile market. In January 2007, our Chief Investment Officer proposed creating a fifth asset class in addition to public stocks, private equity, bonds and other fixed income, and real estate. Under the proposal, we would further diversify our portfolio with direct investments in an “Inflation-Linked Asset Class” composed of infrastructure, timber, commodities, and inflation-linked bonds. Plans are also being developed to restructure our successful real estate program. A similar restructuring plan for the AIM (private equity) program was initiated in early 2006 and will continue into the next fiscal year.

In the corporate governance arena, we will maintain our aggressive shareowner activist program, which led to a record number of corporate proxy resolutions and campaigns during the 2006-07 fiscal year. We will also maintain our leadership role in pressing for transparency about greenhouse gas emissions and other climate risks.

The Public Employee Post-Employment Benefits Commission is scheduled to submit their recommendations to the legislature in January 2008. The commission was established in December 2006 and is charged with identifying and proposing ways to address retiree pension and health care obligations. We will carefully analyze the commission’s recommendations to determine if the implementation of any proposals will impact CalPERS members and employers.

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ENVIRONMENTAL BENEFITS

The 2006-07 CalPERS Comprehensive Annual Financial Report and Operations Summary (excluding the covers) are printed on Mohawk Options 100 percent PC paper which is made with process-chlorine-free 100 percent postconsumer waste fiber. The paper is certified by Green Seal and the Forest Stewardship Council, which promotes environmentally appropriate, socially beneficial, and economically viable management of the world's forests. The paper was also manufactured using non-polluting, wind-generated energy.

This project used 21,510 pounds of 100 percent postconsumer waste paper. The savings derived from using this paper in lieu of virgin fiber paper on this project is equivalent to:

- 258 trees not cut down;
- 745 lbs. waterborne waste not created;
- 109,093 gallons wastewater flow saved;
- 11,633 lbs. of solid waste not generated;
- 22,735 lbs. atmospheric emissions eliminated; and
- 148,580,869 BTUs of energy not consumed.

Values were derived from Mohawk Papers Interactive Environmental Savings Calculator available at www.mohawkpaper.com.



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